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SUBJECT: AMBASSADOR'S 9/27 MEETING WITH DPM BARHAM SALIH -
HYDROCARBON LAW ISSUES

Classified By: Classified By: Ambassador Zalmay Khalilzad for Reasons 1
.4 (b) and (d).

¶1. (C) Summary: Ambassador met September 27 with Deputy Prime Minister Barham Salih to discuss prospects for the hydrocarbon law. Barham expressed optimism that a compromise could be reached, confirming the main issue was regional vs. central control of contracting, with the DPM taking the position that neither the center nor the regions should be given exclusive control. Other issues discussed were the scheduling for the International Compact meetings, with the DPM suggesting that a Kuwaiti offer made in New York on the margins of UN Compact session to host a Compact meeting be accepted, and that the best meeting for them to host would be the planned October 30 final preparatory group session. End Summary.

Hydrocarbon Law

¶2. (C.) In response to a question from the Ambassador on what the final sticking points on the Hydrocarbon Law were, Barham confirmed that the main issue remains who will control the contracting process. He said that there was agreement in principle on revenue sharing, a fundamental point, and that Oil Minister Shahrastani had recently dropped his insistence on special revenue allocations to the regions based on regional needs. There was further agreement on the establishment of a Supreme Petroleum Commission based in Baghdad to set policy and that a reconstituted Iraq National Oil Company would be organized as a holding company with regional affiliates to carry out the exploration and production work. He added that he hoped that Thamir Ghadban would be given the job of head of INOC, though in an earlier conversation Barham said that Ghadban had too much of a statist approach and that what the sector needed was more of a private sector orientation.

Who Controls the Contracts?

¶3. (C) Barham said that he could not support leaving contracting authority in the hands of the regions. That would be a recipe for civil war and corruption. Equally, the national government could not have control since oil had been the vehicle of central government tyranny and the oppression of the regions in Iraq historically. He said some formula to share the contracting authority needed to be found, and that it couldn't lie in a system of majority voting on the board of the Supreme Commission, since the Kurds could not count of a majority based system to protect their interests. Barham was going to Kurdistan in the next days and would endeavor to sell his hydrocarbon ideas to his constituency. He said that in making a case for compromise on the law that process would

be important, e.g., that the Kurdish regional subsidiary (publicly owned) should be free to compete for contracts in the south, along with international companies. Competition was a way to promote transparency and reassure the Kurds that they would not be frozen out of the business end of oil production. Barham speculated that one way out of the contracting dilemma would be some form of final review of contracts at the national level once regional firms had negotiated them, but that there had to be guarantees that the center would not hold contracts hostage for political reasons. Finally, he stressed that there needed to be reliable commitments by the national authority to develop Kurdish resources and infrastructure that would benefit the region.

14. (C) The Ambassador suggested that promises by Minister Shahrastani to build a major refinery in Kurdistan were a good example of creating interdependencies in the country's infrastructure that would reinforce the unity of the system Barham agreed, noting however that the Kurds would need more than promises. They also discussed the aspect of trans-regional infrastructure with Barham pointing out that the development of Iraq's infrastructure should take into account the needs of the broader region, which would also tie Iraq into a positive integration with its neighbors. He thought that this regional aspect of infrastructure should be included in the International Compact. Separately, Barham expressed the idea that one way to ensure greater transparency and provide reassurance about control of the country's oil resources might be to give the IMF and/or World Bank a seat for some period on Iraq's national oil policy entity. Such an arrangement would give further justification to the International Compact including infrastructure among its areas of cooperation between the

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international community and Iraq.

Compact Planning

15. (C) The Ambassador raised the issue that had been brought up with him in a meeting earlier in the day with National Security Adviser Rubaie, that the Kuwaiti offer to host an International Compact event be accepted and that the October concluding Prep Group meeting would fit the schedule best. Barham also solicited U.S. support for garnering a Saudi offer to host the November launch meeting of the Compact, noting that PM Maliki would be raising this plan with the Saudis when he travels there shortly.

Barham,s Brainstorming

16. (C) Before the Ambassador arrived, Econ MinCouns had a wide-ranging discussion with Barham on the DPM's concerns about finding ways to expand the private sector in Iraq's economy. Barham solicited U.S. ideas for ways to implement his housing initiative starting with the Iraqi '07 budget. Barham also noted that he was working on a plan to reduce the size of the public sector by coming up with a program to transition state employees to the private sector based on a model implemented in the UK during the Thatcher government. The basic idea was for the government to cover a share of a state employee's salary for one year as they moved into a private sector job. He especially wanted this program to focus on the many engineers on the state's rolls who could be employed in private companies, like construction. The DPM added that one main obstacle would be the issue of pensions for such employees, and again he solicited U.S. ideas for how to deal with the problem. Barham Salih also raised his idea for a Supreme Board of Reconstruction, and expressed the hope that the work of such a body could somehow be coordinated with the PRTs operating in Iraq's regions.

